



June 29, 2010

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National Commission on Fiscal Responsibility and Reform
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Co-Chairs and Members of the National Commission on Fiscal Responsibility and Reform, thank you for this opportunity to submit testimony. The following is my written testimony that will be summarized in the oral testimony I will provide on June 30, 2010.

My name is David Walrath, representing the California Retired Teachers Association (CalRTA). CalRTA represents the almost 200,000 retirees and beneficiaries of the California State Teachers' Retirement System (CalSTRS). The System was established in 1913 but was not merged with Social Security because there was no Social Security. In the late 1950s CalSTRS provided much better disability and survivor benefits than would have been provided under Social Security. Consequently, when state and local public employees had the option to join Social Security, California educators elected not to join Social Security. They chose to pay more for a better retirement. In the 1980s this decision became a penalty with the enactment of the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO). The GPO predominantly penalizes women, while the WEP penalizes many individuals who switch careers into public service.

CalRTA believes that when the Commission considers Social Security solvency, the equity issues of penalizing millions of public employees through the WEP and GPO needs to be addressed and resolved. The WEP was intended to stop double-dipping within government employment, but instead it is penalizing transfers from private to public employment. The GPO was intended to address the dual earner issue; however, the practical effect is that the entire survivor benefit can be lost by individuals with modest public pensions. The survivor benefit is a social insurance policy. When the GPO eliminates the survivor benefit, it is the same as if somebody paid their entire working career to fund a benefit for their survivor, but the day they die the insurance company cancels the benefit.

This denied survivor benefit has multiple effects. California educators with \$1,500 to \$2,000 per month of CalSTRS benefits, can lose all of their survivor Social Security benefit – especially as the annual cost-of-living adjustment continues to reduce the fixed survivor benefit. California is a high cost state. Losing a survivor benefit because of a modest state benefit seems to fail a basic fairness test and drives retirees toward poverty. Another effect is the increased costs these individuals face for Medicare Part B premiums because they are not eligible for spousal Social Security.

California's retired educators support Representative Berman and U.S. Senator Dianne Feinstein's legislation (HR 235 and S 484, respectively) to repeal these penalties. HR 235 has 330 co-sponsors while S 484 has 31 co-sponsors. We have worked with House Ways and Means Committee and Senate Finance Committee majority and minority staff by providing suggestions on how to fund repeal of the WEP and GPO within a structure that provides Social Security solvency. We hope the Commission will include HR 235 and S 484 when solvency is reviewed.

In conclusion, we believe Social Security solvency should not be considered simply in monetary terms. It should also be considered for equity and fairness to those individuals who paid into CalSTRS in good faith.

Thank you for your consideration.

Sincerely,



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Issue Papers

The California Retired Teachers Association (CalRTA) has approximately 50,000 members and represents the almost 200,000 retirees and beneficiaries in the California State Teachers' Retirement System (CalSTRS). Both current and future CalSTRS retirees are penalized by the current Social Security benefit reductions through the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP).

The California Retired Teachers Association (CalRTA) submits the following issue papers for your consideration:

- Social Security Penalties on California Educators
- Why CalRTA Opposes Mandatory Inclusion in Social Security for California Educators
- Proposals to Fund the Social Security Fairness Act (will be provided upon request)



Social Security Penalties on California Educators

California has a significant teacher shortage. The Social Security reduction provisions discourage and penalize individuals who change careers to enter teaching.

Spousal Offset

The spousal offset discourages both the individuals and spouses who have earned Social Security from entering into CalSTRS because of the double penalty of the Windfall Elimination Provision and the spousal offset. It also discourages individuals from entering into CalSTRS if they have taken a break in service to raise a family and then attempt to return to teaching. The effect is to reduce the spousal retirement earnings for the family. This is the situation for women at age 45 who may go back to teaching for a 15-year period and then retire. Their retirement allowance is not adequate for an individual retirement. As part of a family, their retirement plus their spouse's retirement from Social Security would be adequate retirement if there were not a spousal offset to the Social Security earning.

CalRTA and teachers in California do not understand why public service should be treated differently than private employment with regard to the calculation of Social Security and the spousal Social Security benefits.

Windfall Elimination Provisions

Approximately 39 percent (120,000) of California's teachers enter CalSTRS on or after age 35. These individuals could lose retirement benefits because of the Windfall Elimination Provision. The Windfall Elimination Provision hurts California's ability to recruit teachers from out of state. These teachers, who may have been part of Social Security in the state in which they formerly resided, will lose retirement benefits if they transfer to California.

California's retirement system is structured on the basis of years of service. Consequently, those teachers who come in and have 15 to 20 years of service within California will have a double effect of having a lower retirement allowance, because of their California service not being their full teaching career, and a reduction to their earned Social Security. The Windfall Elimination Provision has the effect of significantly reducing California's ability to attract teachers from out of state.

The Windfall Elimination Provision also significantly reduces the ability to encourage individuals who are in private industry to leave and bring their skills and knowledge to California's classrooms. This transfer of knowledge is particularly important in some of the high technology areas for California high schools and community colleges.

The Windfall Elimination Provision also hurts those individuals who have been in the armed services and are recruited to enter into teaching as a second profession. In California, the Windfall Elimination Provision would have the effect of discriminating against those service retirees.

CalRTA believes that the Windfall Elimination Provision is discriminatory and hurts California's ability to attract qualified teachers. These new teachers are needed both for the state's significant enrollment growth and the class size reduction programs of the federal government and those instituted in California during the past four years.

For these reasons, CalRTA urges the repeal of the spousal offset and the Windfall Elimination Provision penalties to earned Social Security benefits.



Why CalRTA Opposes Mandatory Inclusion in Social Security for California Educators

CalRTA opposes the mandatory inclusion of California educators into the Social Security system. CalRTA has adopted this position for the following reasons.

1. The Social Security benefit is not a vested benefit. Unlike the STRS benefits, almost all of which are vested, Social Security benefits can be changed at any time by Congress if they pass a bill and have that bill signed by the President. There is no guarantee that any particular benefit will not be modified at a later date. The Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) are examples of the effect of having non-vested benefits. Many individuals earned a full Social Security benefit with 40 quarters, then Congress changed the rules and those benefits are no longer provided at the same level.
2. CalSTRS has estimated that mandatory inclusion in Social Security will reduce long-term investment returns for CalSTRS, as well as requiring increased contribution rates to maintain the current benefits provided by CalSTRS. In the case of investment returns, CalSTRS would have less money available for investment because more money would be going to the federal government for Social Security rather than to CalSTRS. Even though teachers are not highly compensated, compared to the average Social Security recipient they are compensated at a higher level. Consequently, teachers will receive proportionally less in their Social Security benefits than they receive from an equal dollar contribution to CalSTRS. The result is that CalSTRS would need to increase contribution rates in order to maintain current benefits.
3. The mandatory inclusion of Social Security would increase the cost to new educators to participate in CalSTRS. Because newly hired teachers have lower compensation, they would have even less discretionary funds to meet their housing, medical and other costs. This would make teaching a less attractive profession for individuals either looking at career changes or individuals recently graduating from post-secondary education.

CalRTA is concerned that Social Security could be privatized or moved toward a privatized system. There has been an ongoing effort to shift away from the not fully guaranteed benefits of Social Security to even less guaranteed benefits by creating a defined contribution component in Social Security. For educators, such a shift would create even greater risk to their retirement, particularly compared to the vested benefits of CalSTRS.

Finally, the Social Security normal retirement age is now 66 and is moving toward 67 years of age. Any new restructuring of Social Security probably could result in an increase to age 68 or 69 along with increasing the age necessary to receive the minimum Social Security benefit from age 62 upward to age 65. If CalSTRS were mandatorily included within Social Security, there would be greater pressure to change the normal retirement age of CalSTRS into the same normal retirement age as Social Security.

Why CalRTA Supports a Voluntary Option to Participate In Social Security

CalRTA has supported CalSTRS' developing a Social Security option. An option would allow mid-career individuals who want to remain in Social Security the opportunity to remain. It would also allow individuals who are newly going into teaching the opportunity to contribute into Social Security. If they decide they no longer want to continue as educators (approximately 50% of new teachers leave before five years), they would have the ability to leave and still have Social Security earnings for their future retirement. CalRTA has supported this as a voluntary option for individuals. The first assumption is that all individuals would join the current CalSTRS defined benefit program but would be allowed to choose a Social Security option alternative.